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Office of the General Counsel for Ocean Services
National Oceanic and Atmospheric Administration
U.S. Department of Commerce
1305 East-West Highway
Silver Spring, Maryland 20910

Subject: The KeySpan Energy Delivery Companies' Need for Islander East and request for Federal Override of Connecticut's Objection

Dear Sir or Madam:

The KeySpan Energy Delivery Companies request that the Secretary of Commerce override the objection of the State of Connecticut to the Islander East Pipeline Project ("Islander East" or the "Pipeline") to allow the construction of the Pipeline to proceed with no interruptions.

The KeySpan Companies have entered into precedent agreements with Islander East for firm transportation service for 110,000 dth/day in the first year of Islander East's operation, which increases up to a maximum daily quantity of 295,000 dth/day in the fifth year of operation.

The KeySpan Companies' precedent agreements with Islander East contemplated that service on that pipeline would commence on or about November 1, 2003. Now, due to delays in the processing of Islander East's requests for permits from the Corps of Engineers and the State of Connecticut, the in-service date may go beyond November 2004, thus creating increased supply risks for the KeySpan Companies' gas customers, unless prompt action is taken to permit timely construction of the Pipeline.

The KeySpan Companies have a public service obligation to provide safe and adequate gas distribution services to gas consumers in the Boroughs of Brooklyn, Queens and Staten Island in New York City and the Counties of Nassau and Suffolk on Long Island. The KeySpan Companies currently serve approximately 1.8 million customers, most of whom are low load factor residential and small commercial customers who utilize natural gas for such life sustaining uses as heating and cooking and have no alternative fuel.

The KeySpan Companies require that Islander East be constructed and put into service as proposed to ensure that they have adequate gas supply to reliably meet the growing winter requirements of their core gas customers. Due to the fact that the commencement date of Islander East has slipped from November 1, 2003, the KeySpan Companies have an immediate and critical need for incremental supply this coming winter.

Islander East is also needed by the KeySpan Companies to increase the reliability and distribution pressures of their natural gas distribution system on eastern Long Island. Currently, eastern Long Island is solely dependent on a single gas pipeline that crosses under Long Island Sound, which is owned and operated by the Iroquois Gas Transmission System ("Iroquois"). Islander East provides a second underwater crossing of the Long Island Sound and backfeeds the KeySpan Companies' distribution system at the eastern end of their system where low pressures have traditionally been a problem.

From a contingency planning perspective, Islander East also enhances the KeySpan Companies' ability to maintain distribution system integrity in the event one of the interstate pipelines that serve KeySpan experiences a force majeure disruption to service. The KeySpan Companies' design strategy is to ensure that reliability is maintained should a loss of any one pipeline that feeds their systems be experienced. Due to the significant customer growth that has been experienced on eastern Long Island, the KeySpan companies face the very real possibility this winter that a service disruption by Iroquois could result in the curtailment of gas service to up to approximately 124,000 core Long Island gas customers, with significant and possibly disastrous effects. This contingency will be eliminated when Islander East is commissioned.

The reliability concern extends not only to gas distribution but also to the cost and reliability of the region's electric supply. KeySpan Utility Services, LLC is the purchasing agent for fuel utilized by KeySpan Generation LLC to generate up to 4000 megawatts of generating capacity on Long Island. The New York State Reliability Council requires under its local reliability rules that the loss of a single gas facility not result in the loss of electric load within New York City or Long Island. Failure to construct Islander East would significantly complicate, and potentially compromise, the ability of electric generators to comply with these reliability rules due to the region's growing reliance on Iroquois.

Starting in October 2003, a new pipeline project to the New York Metropolitan area, Iroquois' Eastchester Expansion Pipeline Project, is anticipated to deliver over 200,000 dth/day of additional supplies on behalf of several electrical generators in New York City and Con Edison. The Eastchester Project is a pipeline extension off of the existing Iroquois underwater crossing which interconnects with the pipe near Northport, Long Island and travels west to Hunts Point in the Bronx. While this project provides needed incremental gas supply to the region, it exacerbates the contingencies associated with the fact that the existing Iroquois crossing is the sole supply source for this new project as well as for the KeySpan Companies' eastern Long Island distribution system.

As a result, unless Islander East is constructed, a failure of the Iroquois pipeline would likely disrupt service to the KeySpan Companies' core gas customers as well as to the electric customers on Long Island and potentially in New York City as well.

The Final Environmental Impact Statement ("FEIS") confirmed the preliminary conclusion of the Draft Environmental Impact Statement, that Islander East would have only limited environmental impacts. While the FEIS also concluded that there was a hypothetical alternative, which would have had somewhat fewer impacts, it did not recommend that alternative. To the contrary, it recognized that there was no proposal to construct that alternative before the Commission. In addition the FEIS acknowledged that the results of the environmental review are only one factor to be taken into account in a determination of public convenience and necessity and that "the flexibility and reliability of the interstate pipeline grid, competition, market need, precedent agreements, or lease agreements" must also be considered.

The KeySpan Companies submit that the Islander East project is the only alternative which will protect and further these other elements of the public convenience and necessity by virtue of the fact that it is the only project to provide a second pipeline crossing under Long Island Sound.

Islander East also furthers the FERC's goal of enhancing competition, since it represents the availability of new service from a new market entrant. In addition, Islander East is the only project before the FERC which can meet the KeySpan Companies' need for additional gas supply by the fall of 2004.

In sum, the KeySpan Companies chose to enter into Precedent Agreements with Islander East as opposed to any other project to assure gas supply adequacy to core gas customers, increase distribution system reliability and to provide reliable gas fuel to KeySpan Generation LLC's electric power plants.

The map below illustrates a number of important elements to be mindful of:

1. The geographic issues faced by KeySpan given that Long Island is 120 miles long and that all of the other interstate pipeline interconnections to KeySpan are significantly west of the Islander East Pipeline.
2. Deliveries in NYC and Long Beach are unable to be "pushed east" to meet the needs of Long Island customers.
3. The Eastchester Project adds significant additional dependency on the single Iroquois Long Island Sound crossing.
4. Only Islander East delivers needed new supplies and pressure support to Long Island.

The KeySpan Companies recognize that there are other pipeline projects besides Islander East that are being proposed to serve the New York and Long Island region. However, only one of these project alternatives is designed to serve eastern Long Island -- Iroquois' Eastern Long Island Expansion (ELI) Project.

The NYS Public Service Commission has reviewed each alternative and has supported the selection of Islander East by the KeySpan Companies over the other alternatives as explained below:

Additional pipeline capacity particularly in the eastern end of Long Island is needed to serve the growth in the core gas market as well as in the market for gas-fired electric generation. It is important to recognize that New York City and Long Island are two distinct markets with limited interconnections. [Other projects] if constructed will alleviate much of the capacity constraints into the metropolitan New York City area but will do little to serve the county of Suffolk in the eastern end of Long Island. There are a number of gas-fired electric generation facilities proposed for the eastern portion of Long Island, as well as substantial growth in the core gas market residential heating loads. The existence of transmission constraints, both on the electric and gas systems, require that additional pipeline and generation capacity be built to serve these growing markets.¹

With respect to the relative merits of Islander East and the now-cancelled Iroquois ELI project, the NYS PSC concluded:

While the Iroquois ELI Project is shorter and could pose fewer environmental impacts, it uses a portion of the existing Iroquois Long Island Sound crossing. The contingency protection of both the gas and electric systems afforded by a totally separate Sound crossing, as proposed by Islander East, is protection against the total loss of supply if damage were to occur to the Iroquois line upstream of the interconnection to the ELI facilities, either the portions in the Sound or upstream of that. Given the information we have currently, if only one line were to be built, our preference would be that Islander East be certified because it will [be] another source of delivery to Long Island.

It is for these reasons that KeySpan requests the Secretary of Commerce to override Connecticut's objection to allow the construction of the Islander East Pipeline to proceed with no interruptions.

Respectfully,


Ronald G. Lukas

¹ Notice of Intervention and Comments of the Public Service Commission of the State of New York, FERC Docket NOs. CP02-52-000 et al., January 22, 2002.